

Case Study

Credit Suisse Tackles Trading Fees & Expense Management



In a Q&A, Ben Harrison, the head of global brokerage, clearing and exchange efficiency and analysis at Credit Suisse, provides details on how he and his team are turning the corner on controlling trading fees and expenses.

Q: What were the business drivers behind the extension of the agreement with SmartStream?

A: Our engagement with SmartStream for fees and expense management dates back to 2014. The initial focus was the managed service for OTC (over-the-counter) fixed income derivatives, U.S.-listed equity options and cash equities across brokerage, clearing and exchange fee operations. Onboarding these fee categories onto the SmartStream platform end-to-end has brought robust front-to-back controls for fee calculation, accrual, validation, allocation and payment. Off the back of this, we have been keen to leverage the synergies by adopting a similar approach for our listed derivatives brokerage operations. Underscoring the rationale of moving toward the managed service approach is to consume a service that is truly scalable and allows for the consolidation of our brokerage payments operations on one platform. This subsequently allows us the option of retiring legacy internal systems. Architecture simplification is clearly a factor and this approach allows us to realise a reduction in our RTB and CTB IT spend.

We perceive fees and expense management as an area where the financial services industry can benefit from service mutualisation. Mutualisation in this space will bring the benefits of standardisation and best practices to an area that has grown organically. We believe our current engagement with SmartStream positions Credit Suisse well in this regard.

Q: How has the SmartStream service impacted what you and your staff do?

A: Leveraging the managed service model with SmartStream for invoice payment and validation has enabled us to enhance our control model. We have been able to transition away from 'firefighting' to a full front-to-back control model

that allows a proactive focus on process management.

For example, when the control team is responsible for allocation rules for fees, such as exchange connectivity, they are now able to proactively update these based on real-time trade volumes. The benefit is the control team assumes full ownership of costs while business management is able to focus more attention on key business decisions rather than elementary cost control.

Statement of account meetings with various market participants are a key element of our standard operations. By utilising SmartStream's managed service, our staff members have materially benefited from a more organised approach to data and significant improvements to the available management information.

The result of this is that statement of account meetings yield greater benefits on both sides. We can define action plans around expense payments as well as quickly come to an agreement on closing historical periods as well as whether invoices have been paid.

Q: Has the deployment helped eliminate some manual or near-manual processes?

A: Bringing items on to the SmartStream platform end-to-end has automated a considerable amount of the effort around invoice control. For two of the major fee buckets, namely exchange and brokerage fees, we have been able to reap the benefits of automation both in terms of process as well as improved integrity in the outcome. Exchange fees validation takes place on a detailed line item with a high level of granularity. This includes a variety of trade facets such as order type and liquidity behaviour. The result is that we have a significant improvement in the degree of accuracy that charges are passed back to the right place within our business hierarchy.

For brokerages, the automated independent verification of invoices to internal trade data removes the significant burden of manual spreadsheet reconciliation. In both instances, the scope for human error in the invoice lifecycle has been minimised. An area where we have seen some major efficiencies in terms of process is the ability to provide transparency on our transactions costs.

Prior to onboarding the SmartStream platform, it was often the case that multiple different data sources had to be mined to answer basic questions about transaction fees, e.g. trade details would need to be sourced from trade capture systems, payment details from payment systems and allocation details from the journal entries made in the ledger. Now we live in an environment where there is a linear record in one place that provides a full record of the fees incurred and how they were calculated, accrued, validated, allocated and paid in real time. This has been critical in explaining the narrative of transaction expenses to management.

With all our data in one place, we have the ability to automate some key control functions. For example, the link between accruals and payments has been important in automating our balance sheet reconciliations. These are critical in monitoring our aged balances and become a key tool in closing periods across the number and variety of vendors we use.

Q: How have your counterparties reacted to the new system?

A: For our internal counterparties, the transition to SmartStream has generally been a seamless process, which is a result of the transition work undertaken by both Credit Suisse and SmartStream.

Internally, teams are benefiting from all the hard work that goes on behind the scenes to deliver tighter controls, better and more accurate allocations of costs, etc. These are all factors that result in faster and more detailed management information that can be used to make decisions in real-time.

Previously, management information was a much more manual process, whereas now the front-to-back product coverage on the SmartStream platform provides a huge amount of information at the press of a button.

Utilising these analytics, our teams are able to provide details on transaction fees and solve what can be challenging business questions.

Q: What do you think of the prospect of industry participants standardising invoicing and fee management practices?

A: The management of transaction fees is a challenge that all market participants face. The sheer volume of invoices received on a monthly basis presents a major challenge in its own right, even before the details contained on the invoices are digested. With this in mind, fees and expense management is an area that lends itself to standardisation across the industry.

At a macro level, the same dealers are using the same market centres and interdealer brokers; as such, it is possible to envisage an environment where standard invoices are issued and verified in a uniform fashion. The potential for automation is significant, as there is the potential for trading fees to be confirmed T+1 and for invoices to be paid immediately at month end. Uniform fee schedules, which are already the case for exchanges and will be implemented by MTFs [multi-lateral trade facilities] and OTFs [organised trading facilities] under MiFID II come January, could also prove to be a catalyst for standardisation.

Typically, banks maintain an array of fee schedules internally to calculate monthly fees; however, there are considerable advantages to be gained in having this information maintained through a managed service provided by a partner such as SmartStream, who can maintain uniform fee schedules across a number of industry participants.

About SmartStream

SmartStream provides Transaction Lifecycle Management (TLM)[®] solutions and Managed Services to dramatically transform the middle and back-office operations of financial institutions. Over 1,500 clients, including more than 70 of the World's top 100 banks, 8 of the top 10 asset managers, and 8 of the top 10 custodians rely on SmartStream's solutions.

SmartStream delivers greater efficiency, automation and control to critical post trade operations including: Reference Data Operations, Trade Process Management, Confirmations and

Reconciliation Management, Corporate Actions Processing, Fees and Expense Management, Collateral Management, Cash & Liquidity Management and Compliance Solutions. Used independently or as a suite of solutions and services, clients gain a lower cost-per-transaction whilst reducing operational risk, aiding compliance and improving customer service levels.

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